

## **Schedule 8**

## Cable Modem Industry Specific Comments

### Cable Modem

- Tell the truth about the speed of cable, which **has** been **grossly** exaggerated in their advertising-- they claim **up to 100 times the speed** of typical dialup services. **Whilst** the 'up to' makes *the* statement true, it suggests that you can at least sometimes achieve **100 times the speed** which is never the case.
- **Eliminate** the interruptions in service during the day. **Loss service from anywhere** of a few seconds to up to one hour a 4 - 5 times a day. With my VPN when I lose service my computer becomes locked.
- It's not as fast as advertised.
- I consider cable modem service very expensive, but it is still **better** than the dial up service that rang busy most of the time.
- The service is frequently down or extremely slow. Hold times for customer support is extremely long. The support personnel at 1st level have very little technical knowledge. **Overall** Comcast does a terrible job as a cable TV provider. Too much time as a monopoly is my personal opinion. If I had **ANY** other choice for high speed access I would take it. Even at twice the price... are you getting the idea?

## **Schedule 9**



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## Telework Beat:

## Cable modem madness

What's behind AT&amp;T Broadband's rate increase?

By Toni Kistner

Network World, 06/10/02/02

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AT&T Broadband recently gave its subscribers some puzzling news.

A price restructuring will "save" cable modem renters \$7 per

month while charging cable modem owners \$7 more

per month. Or, put another way, the new plan charges renters \$3 more per month and owners \$7. Yet renters will pay the same amount they do now. Confused? Me, too.

Here's how it works: Today, base pricing for nearly all AT&T Broadband customers is \$35.95 per month. But those who rent the modem pay \$10 to do so, upping their rate to \$45.95 per month. Under the new plan effective July 1, base pricing for everyone increases \$7 to \$42.95. But AT&T Broadband will now decrease the cable modem rental fee from \$10 to \$3, in effect, giving renters a \$7 price break. However, modem owners will pay \$7 more (from \$35.95 to \$42.95) and that's that. (To appease modem owners, AT&T Broadband is sending them coupons that defer the rate increase to January 2003.)

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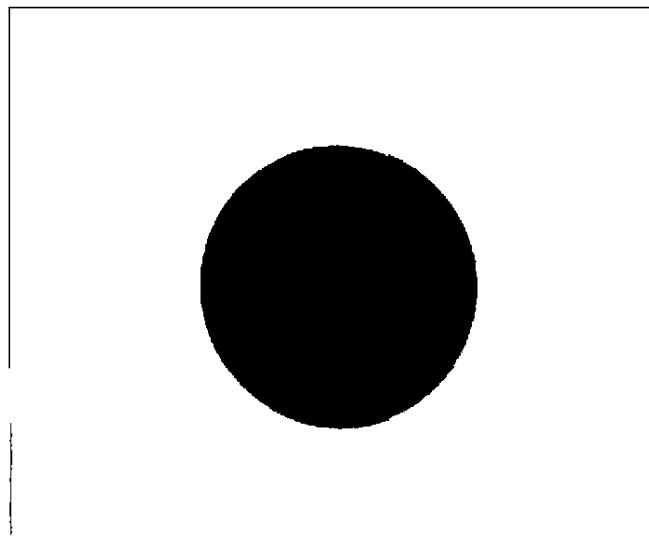
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An AT&T Broadband spokesperson says the restructuring is in reaction to the steep

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drop in modem prices  
- from \$300 two  
years ago to \$70  
today.

"But they're not  
passing on the cost  
savings to the  
customer," says Mike  
Wolf, an analyst with  
Instat. "It's a pretty  
sneaky move but one  
that may get  
overlooked by the  
end user."

Instead of announcing an across-the-board price hike - which is what this is - AT&T Broadband has spun the restructuring as a rate decrease for its modem renters, who make up 90% of its 1.6 million subscribers. Worse, the drop in modem prices means AT&T Broadband is making more money from modem renters than ever.

So where does all this leave AT&T Broadband's 1.6 million customers - 90% of whom lease their modems? Overall, modem buyers are more tech savvy than modem renters. The 10% who knew enough to buy the modem and pay a cheaper rate will lose the benefit. So much for being smart; there's always DSL. But the company assumes these users won't complain or jump to DSL because they've already invested in the hardware. We'll see.

And the modem renters? If they've already chosen to pay \$10 per month for the privilege of using someone else's hardware, they'll probably believe that AT&T Broadband is cutting them a break. (And that AOL 7.0 is faster, too.) Nevertheless, such a move could foster a long-term loyalty, and even prime them over time to buy additional services with the money they think they've saved.

What's more, "AT&T Broadband wants to ensure that every new customer leases rather than buys the modem, especially since it's figured out how to make money leasing," adds Michael Greeson, Parks senior analyst and director of **broadband** research.

Of course, modem leasing is just one model cable operators experiment with to generate revenue. Cox Communications keeps its monthly service fixed at \$34.95, but charges a high \$15 per month as a modem rental fee, which in turn drives many users to buy the modem. Then Cox turns around and sells modems for as much as \$149, delivering more

than \$80 profit per box, according to a recent Kinetic Research report.

"We do not lease our **modems**," a Time Warner Cable spokesperson says. "Our approach is to get the most sophisticated boxes into the home, so that they would provide a gateway to a myriad of new services we could turn on or off at the customer's request. Our revenues would be derived in selling those services, not leasing the hardware."

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Toni Kistner is managing editor of Net.Worker. Contact her at [tkistner@nww.com](mailto:tkistner@nww.com).

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## Networking

## Modem owners get AT&amp;T cable surprise

By Rachel Konrad

Special to ZDNet News

May 28, 2002, 1:25 PM PT

**BACK!****Tell us your opinion!**

A new pricing structure from **AT&T** will result in modem owners paying an extra **\$7** for their high-speed Internet **service**.

AT&T Broadband Internet will announce later Tuesday several changes to the way it charges for its cable modems. AT&T marketing executives framed the changes as price reductions based on the decreasing cost of hardware, but the end result will be higher costs for roughly 162,500 AT&T customers who own their own cable modems.

Almost all AT&T broadband customers now pay \$35.95 per month for high-speed Internet service. Those who lease modems through AT&T pay an additional \$10 per month for a total of \$45.95, and those who own their own modems pay no additional fee.

Starting on June 1 in most regions, AT&T will increase the monthly service rate to \$42.95. Customers who lease their modem from AT&T will have their lease fee reduced by \$7, paying an additional \$3 per month for the modem. That will make their monthly bill come to \$45.95--the same price they paid last month.

But bills will increase for the 10 percent of AT&T's 1.63 million customers who own their own modems. Their monthly service fee will also go up to \$42.95, which means they're going to pay \$7 per month more than they paid last month.

Although the price restructuring will appear in customers' next statement, modem owners won't feel the sting for six months. AT&T will include in the next statement six coupons for \$7 off monthly service, letting modem owners off the hook for the new rates until January. New subscribers who own their own modems will pay \$42.95 per month as soon as they sign up.

Darrel Hegar, vice president of Internet services for Englewood, Colo.-based AT&T Broadband, said the changes reflected price reductions for cable modems. When home broadband access became popular in the late 1990s and in 2000, cable modems cost \$300 or more. But in the past two years, the price has dropped to \$100 or less, thanks in part to

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Hegar also noted that AT&T's service is still priced lower than alternative broadband service from DSL (digital subscriber line) providers, which typically charge \$50 or more per month. Although connection speeds for cable modem users aren't as consistent as those for DSL subscribers, cable modem users generally report faster upstream speeds.

"If you look at the price of our service, it really still reflects one of the best values in the marketplace," Hegar said Tuesday morning. "Cable Internet continues to be the best way to access broadband vs. DSL or satellite. If you look at availability, speed and price, we are still a value leader."

Based on the number of people paying an additional \$7 per month, AT&T stands to gain \$1.14 million in monthly revenue from the restructuring. But it's unclear why AT&T representatives announced the restructuring as a break for modem leasers as opposed to a simple price hike for 10 percent of customers.

The decision to increase prices for modem owners could be due to the fact that owners have sunk more of their own money into the service and would be less likely to switch to DSL or another broadband alternative, according to Mark Kersey, broadband industry analyst for La Jolla, Calif.-based research group ARS.

"People who own their modems are pretty much locked in to staying with AT&T," Kersey said. "It's a way to extract a little more money out of a small percentage of people. That's a fairly politically smart thing to do because it doesn't affect the vast majority of customers."

The restructuring could also be an effort to make AT&T's broadband unit more attractive to smaller rival Comcast, which in December announced its intention to purchase the AT&T unit for about \$37 billion. The combined company, AT&T Comcast, would be the No. 1 U.S. cable TV operator with more than 22 million subscribers. But the structure of the new company recently came under fire, and shareholders are beginning to question whether to approve the deal.

Despite efforts to boost revenue, AT&T cannot raise monthly broadband rates indiscriminately. Although demand for high-speed Internet connections is still growing, the economic slump has slowed growth somewhat and has resulted in a growing number of broadband defectors. And the industry is still reeling from the painful collapse of former front runner Excite@Home.

The company's demise caused cable partners, particularly AT&T, to scramble to migrate consumers to independent networks, causing customer service nightmares for millions of people. Before its collapse last fall, Excite@Home had 4.1 million customers and controlled about 45 percent of the U.S. home-broadband market.

Customers are already grumbling that the government should regulate broadband service and access rates, which have risen steadily in the past year. An ARS study determined that cable broadband Internet prices rose 12 percent in 2001, from an average of \$39.40 per month in January to \$44.22 per month in December. Consumer DSL prices rose 10 percent during the same time frame from \$47.18 in January to \$51.67 in December.

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## **Schedule 10**

## Broadband Reports

### DSL Products Pricing Summary

Company	Res/Biz	Type	DSL Provider	Speed	Ip	Net Install	Per Month	Free Mbxs/lps	Equipment
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BEANNet Interactive	R	ADSL	WorldCom	1544/768	static	\$299	599	99box/lip	USB
BEANNet Interactive	A	SDSL	WorldCom	128/128	static	<b>\$599</b>	\$145	99box/lip	USB
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CenturyTel	A	ADSL	CenturyTel	512/256	dhcp	\$155	\$50	1box/lip	External
CenturyTel	A	ADSL	CenturyTel	512/256	static	\$155	\$70	1box/lip	External
CenturyTel	A	ADSL	CenturyTel	512/256	dhcp	\$280	\$80	10box/lip	Router
CenturyTel	A	ADSL	CenturyTel	512/256	static	\$280	\$100	10box/lip	Router
Covad	R	ADSL	Covad	384/128	PPPoE	\$99	\$40	1box/lip	External
Covad	R	ADSL	Covad	1500/128	PPPoE	\$99	549	5box/lip	External
Covad	R	ADSL	Covad	1/128	PPPoE	\$99	\$50	15box/lip	Router
Covad	A	ADSL	Covad	1500/384	PPPoE	\$199	869	15box/5ip	Router
Covad	A	ADSL	Covad	1500/384	static	\$199	\$79	5box/5ip	Router
Covad	A	ADSL	Covad	144/144	choice	\$584	\$149	15box/5ip	Router
Covad	A	SDSL	Covad	192/192	choice	\$584	\$149	15box/5ip	Router
Covad	A	SDSL	Covad	384/384	choice	\$584	\$179	15box/5ip	Router
Covad	A	SDSL	Covad	768/768	choice	\$584	5239	15box/5ip	Router
Covad	A	SDSL	Covad	1500/1500	choice	\$584	5369	15box/5ip	Router
DirectTV DSL	R	ADSL	Qwest	640/256	static	free	\$49	5box/lip	Router
DirectTV DSL	R	ADSL	Ameritech	768/128	static	free	\$49	5box/lip	Router
DirectTV DSL	R	ADSL	Verizon	1500/128	static	free	\$49	5box/lip	Router
DirectTV DSL	R	ADSL	BellSouth	1500/128	static	free	\$49	5box/lip	Router
DirectTV DSL	R	ADSL	Pacbell	1500/128	static	free	\$49	5box/lip	Router
DirectTV DSL	R	ADSL	Southwestern Bell	1500/128	static	free	\$49	5box/lip	Router
EarthLink DSL	R	ADSL	Verizon	1500/128	PPPoE	free	\$49	8box/	USB
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MegaPath Networks	R	ADSL	Covad	608/128	static	\$198	\$60	5box/	Router
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## Broadband Reports

### DSL Products Pricing Summary

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MegaPath Networks	R	SDSL	New Edge	192/192	static	\$174	\$110	5box/	Router
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MegaPath Networks	B	IDSL	New Edge	144/144	static	\$299	\$120	50box/	Router
MegaPath Networks	K	SDSL	Covad	384/384	static	\$124	\$140	5box/	Router
MegaPath Networks	K	SDSL	New Edge	384/384	static	\$174	\$140	5box/	Router
MegaPath Networks	K	SDSL	IP Communications	384/384	static	\$400	\$140	5box/	Router
MegaPath Networks	B	SDSL	Covad	384/384	static	\$124	\$180	50box/	Router
MegaPath Networks	H	SDSL	New Edge	384/384	static	\$174	\$180	50box/	Router
MegaPath Networks	B	SDSL	IP Communications	384/384	static	\$400	\$180	50box/	Router
MegaPath Networks	R	ADSL	Pacbell	4000/384	static	\$248	\$180	5box/	Router
MegaPath Networks	K	SDSL	Covad	768/768	static	\$124	\$200	5box/	Router
MegaPath Networks	R	SDSL	New Edge	768/768	static	\$174	\$200	5box/	Router
MegaPath Networks	B	ADSL	Pacbell	4000/384	static	\$248	\$230	50box/	Router
MegaPath Networks	K	SDSL	Covad	1000/1000	static	\$124	\$250	5box/	Router
MegaPath Networks	R	SDSL	New Edge	1000/1000	static	\$174	\$250	5box/	Router
MegaPath Networks	B	SDSL	Covad	768/768	static	\$124	\$260	50box/	Router
MegaPath Networks	B	SDSL	New Edge	768/768	static	\$174	\$260	50box/	Router
MegaPath Networks	H	SDSL	IP Communications	768/768	static	\$400	\$260	50box/	Router
MegaPath Networks	R	SDSL	Covad	1500/1500	static	\$124	\$6300	5box/	Router
MegaPath Networks	K	SDSL	New Edge	1500/1500	static	\$174	\$6300	5box/	Router
MegaPath Networks	B	SDSL	Covad	1000/1000	static	\$124	\$5330	50box/	Router
MegaPath Networks	B	SDSL	New Edge	1000/1000	static	\$174	\$330	50box/	Router
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Pacifier Online	B	SDSL	Covad	144/144	choice	\$90	na		USB
Pacifier Online	B	SDSL	Covad	192/192	choice	\$100	na		USB
Pacifier Online	K	ADSL	Qwest	256/255	choice	\$20	na		USB
Pacifier Online	B	SDSL	Qwest	256/256	choice	\$100	na		USB
Pacifier Online	H	SDSL	Covad	384/384	choice	\$200	na		USB
Pacifier Online	R	SDSL	Verizon (ex GTE)	384/384	choice	\$160	na		USB
Pacifier Online	B	SDSL	Qwest	512/512	choice	\$200	na		USB
Pacifier Online	R	ADSL	Qwest	640/272	choice	\$20	na		USB
Pacifier Online	R	ADSL	Qwest	640/544	choice	\$40	na		USB
Pacifier Online	R	ADSL	Verizon (ex GTE)	768/128	choice	\$20	na		USB
Pacifier Online	B	SDSL	Covad	768/768	choice	\$300	na		USB
Pacifier Online	B	SDSL	Qwest	768/768	choice	\$300	na		USB
Pacifier Online	It	ADSL	Qwest	960/816	choice	\$80	na		USB
Pacifier Online	R	ADSL	Qwest	1280/1088	choice	\$80	na		USB
Pacifier Online	R	ADSL	Verizon (ex GTE)	1500/128	choice	\$40	na		USB
Pacifier Online	K	ADSL	Verizon (ex GTE)	1500/384	choice	\$40	na		USB
SBC Pacific Bell	A	ADSL	Pacbell	384/128	dhcp	\$99	\$42	11box/	USB
SBC Pacific Bell	A	ADSL	Pacbell	384/128	dhcp	\$99	\$49	11box/	USB
SBC Pacific Bell	A	ADSL	Pacbell	768/256	dhcp	\$99	\$59	11box/	USB
SBC Pacific Bell	A	ADSL	Pacbell	384/128	static	\$349	\$64	11box/5ip	Router
SBC Pacific Bell	A	ADSL	Pacbell	768/256	static	\$349	\$79	11box/5ip	Router
SBC Pacific Bell	A	ADSL	Pacbell	1500/384	static	\$349	\$179	11box/5ip	Router
SBC Southwestern Bell	A	ADSL	Southwestern Bell	384/128	dhcp	\$99	\$42	10box/	USB
SBC Southwestern Bell	A	ADSL	Southwestern Bell	384/128	dhcp	\$99	\$49	10box/	USB
SBC Southwestern Bell	A	ADSL	Southwestern Bell	768/256	dhcp	\$99	\$59	10box/	USB
SBC Southwestern Bell	A	ADSL	Southwestern Bell	384/128	static	\$349	\$64	10box/5ip	External
SBC Southwestern Bell	A	ADSL	Southwestern Bell	768/256	static	\$349	\$79	10box/5ip	External
SBC Southwestern Bell	A	ADSL	Southwestern Bell	1500/384	static	\$349	\$179	10box/5ip	External
Speakeasy.net	R	RADSL	Covad	608/128	dhcp	\$225	\$49	2box/	External
Speakeasy.net	R	RADSL	Covad	608/128	static	\$225	\$59	2box/2ip	External
Speakeasy.net	R	RADSL	Covad	1500/128	dhcp	\$225	\$59	2box/	External
Speakeasy.net	K	RADSL	Covad	1500/128	static	\$225	\$69	2box/2ip	External
Speakeasy.net	R	IDSL	Covad	144/144	static	\$584	\$89	2box/2ip	External
Speakeasy.net	R	RADSL	Covad	1500/384	static	\$225	\$89	2box/2ip	External

## Broadband Reports

### DSL Products Pricing Summary

company	Res/Biz	Type	DSL Provider	Speed	Ip	Net Install	Per Month	Free Mbxs/lps	Equipment
Speakeasy.net	R	SDSL	Covad	384/384	static	\$374	\$119	2box/4ip	External
Speakeasy.net	B	IDSL	Covad	144/144	static	\$584	\$124	10box/32ip	Router
Speakeasy.net	B	SDSL	Covad	192/192	static	\$584	\$124	10box/32ip	Router
Speakeasy.net	R	SDSL	Covad	768/768	static	\$374	\$159	2box/4ip	External
Speakeasy.net	B	SDSL	Covad	384/384	static	\$584	\$169	10box/32ip	Router
Speakeasy.net	R	SDSL	Covad	1100/1100	static	\$374	\$199	2box/4ip	External
Speakeasy.net	B	SDSL	Covad	768/768	static	\$584	\$249	10box/32ip	Router
Speakeasy.net	B	SDSL	Covad	1100/1100	static	\$584	\$299	10box/32ip	Router
Speakeasy.net	R	SDSL	Covad	1500/1500	static	\$374	\$299	2box/8ip	External
Speakeasy.net	B	SDSL	Covad	1500/1500	static	\$584	\$399	10box/32ip	Router
TJpspcd.com	A	ADSL	New Edge	384/128	choice	free	\$69	10box/1ip	External
Tagspeed.com	A	ADSL	New Edge	768/384	choice	free	\$89	20box/1ip	External
Tagspeed.com	A	SUSL	New Edge	192/192	choice	free	\$99	10box/2ip	Router
Tagspeed.com	A	SUSL	New Edge	384/384	choice	free	\$119	20box/2ip	Router
Tagspeed.com	A	IDSL	New Edge	144/144	choice	\$149	\$139	10box/2ip	Router
Tagspeed.com	A	SDSL	New Edge	768/768	choice	free	\$149	30box/2ip	Router
Tagspeed.com	A	ADSL	New Edge	1500/384	choice	free	\$159	20box/2ip	External
Tagspeed.com	A	SDSL	New Edge	1100/1100	choice	free	\$169	50box/2ip	Router
Tagspeed.com	A	SUSL	New Edge	1500/1500	choice	free	\$179	30box/2ip	Router
Tagspeed.com	A	SDSL	New Edge	2300/2300	choice	free	\$275	50box/3ip	Router
Tagspeed.com	A	ADSL	New Edge	4000/384	choice	free	\$339	25box/2ip	External
Tagspeed.com	A	ADSL	New Edge	7200/384	choice	free	\$449	30box/3ip	External

Source: [www.broadbandreports.com](http://www.broadbandreports.com)

# TR's ONLINE CENSUS

The Independent  
Quarterly Benchmark  
of Online Services

From *Telecommunications*  
Reports Keeping  
communications industry  
professionals informed  
since 1934.

**Third Quarter  
2002**

## Consumer Online Base Nudges Up to 73.7 Million Users In Lethargic Third Quarter; High-speed Migration Slows

With new online users hard to find, and a diminished — albeit still lively — migration to high-speed access, the consumer online audience has reached its first-ever extended plateau. In the six months since our last comprehensive census of customers of U.S.-based Internet Service Providers, the number of users has remained relatively static. At the end of the third quarter (Sept. 30, 2002), these ISPs reached 73,693,662 customers, compared to 70,730,070 on March 31. That represents a scant growth of 4.2 percent during the past six months.

Last year, on Sept. 30, 2001, the customer base totaled 67.9 million, indicating a year-over-year growth of 8.51 percent — well below the blister-

ing double-digit growth pace of the late 1990s.

The bright spot — although also somewhat dimmer than in earlier periods — is the continuing addition of high-speed access users, now representing about 20 percent of the online audience. Equally significant is the growth of the Digital Subscriber Line (DSL) customer base, which is nearly 43 percent of the broadband audience — up from about 33 percent a year ago.

At just under 8.6 million customers, the cable modem audience itself is up nearly 12 percent compared to March 31 and nearly 62 percent above Sept. 30, 2001, levels. DSL growth is accelerating even more quickly, reaching 6.46 million customers at the end of third quarter 2002. That tally is

**By Gary H. Arlen  
Editor**

### Total Online Census by Category Customer Base as of September 30, 2002

Category of ISP	Sept. 30, 2002	Six Months Ago	One Year Ago	Growth compared to:	
				3/31/02	9/30/01
Dial-Up	58,456,262	58,463,470	58,144,750	- 0.01%	0.59%
DSL	6,463,000	4,393,000	3,524,000	47.1%	83.4%
Cable Modem	8,596,400	7,692,600	5,314,900	11.7%	61.7%
Satellite	178,000	181,000	114,000	-1.6%	56.1%
<b>TOTAL</b>	<b>73,693,662</b>	<b>70,730,070</b>	<b>67,909,650</b>	<b>4.19%</b>	<b>8.52%</b>

47 percent above the March 3 I level and 83 percent higher than a year earlier.

The September 30 online census underscores the growing battle for a diminishing supply of "newbies" and, more significantly, the effort to lure customers away from their current ISPs as they take the broadband plunge. Those efforts are already accelerating — especially with the release of "Version 8" software from both Microsoft Network and America Online in mid-October, just a few weeks after the third quarter ended.

Even before the current recruitment binge began, MSN claimed to have signed up about 300,000 customers during the summer quarter — about 50 percent more than the 206,000 subscribers that arch-rival America Online added worldwide during the same period.

Moreover, most of AOL's growth continues to come from overseas expansion, although the pace of that growth has also slackened. During the latest reponing period, AOL added 129,000 U.S. users and 148,000 customers in Europe.

Overall, AOL's 35.3 million customers include 26.7 million in the United States, 6.1 million in Europe and 2.5 million through its alliances in the Pacific Rim and Latin America. AOL acknowledges that its membership dropped by 71,000 in Latin America "due primarily to difficult economic conditions."

AOL's share of the U.S. market also continues to dwindle. As recently as 1998, AOL reached more than 60 percent of those U.S. households that were online. Today barely 40 percent of U.S. homes go to the Internet via AOL

or its subsidiary CompuServe (which now has three million subscribers).

## Transitional Growing Pains

Economic uncertainties — which have discouraged potential U.S. customers from committing at a faster rate to the extra fees for high-speed service — plus continuing Complaints about broadband provisioning contributed to the slowing pace of broadband deployment.

In addition, other growing pains affected some ISPs. The financial implosion at Adelphia Communications Corp., prompted the company to restrict its broadband initiatives, which includes a decision not to reveal any sales figures. Privately held, independent ISP Inter.net Global, sold its dial-up business to an overseas company that it is prohibited from identifying; the new owner promptly abandoned its residential service offerings and most of its dial-up operations.

In the satellite sphere, StarBand remains in Chapter 11 bankruptcy reorganization but claims to have maintained its customer base of about 40,000 subscribers. It acknowledges that the 40,000 figure represents a constant replacement of its churning audience. StarBand emphasizes that during mid-summer it had to build a marketing assault from scratch after its tumultuous divorce from EchoStar Communications, Inc., the satellite broadcasting company that had been selling StarBand service for nearly two years.

Separately, rival DirecWay, operated by Hughes Network Systems, Inc., claims that it has added 15,000 customers during the third quarter. But its loosely described tally blends residen-

## TR's ONLINE CENSUS

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### The Largest Providers: Now and Then

#### Customer Growth of Major ISPs

	Sept. 30, 2002	March 31, 2002	Growth % from March to September 2002	Sept. 30, 2001
<b>America Online</b>	35,300,000	33,200,000	6.3%	31,300,000
<b>Microsoft Network</b>	8,700,000	7,700,000	13.0%	6,500,000
<b>EarthLink (Dial-up)</b>	3,976,000	4,200,000	-5.3%	4,200,000
<b>EarthLink (DSL)</b>	681,000	532,000	28.0%	406,000
<b>SBC (DSL)</b>	1,950,000	1,500,000	30%	1,200,000

tial users and enterprise customers — both small and medium-sized businesses. Moreover, the HNS data fails to distinguish between true two-way satellite delivery and the company's long-standing hybrid service, which pairs a telephone line return path with its high-speed satellite downlink.

A more traditional but nonetheless challenging factor in the ISP tally involves wholesale operations. For example, Verizon Communications, Inc., supplies DSL service for much of EarthLink's high-speed offering. Hence, Verizon Online's overall customer base includes about two million users — half through its own branded retail DSL service, about a quarter through its Verizon Online dial-up retail offering, and another one-quarter through its wholesale DSL operation on behalf of EarthLink.

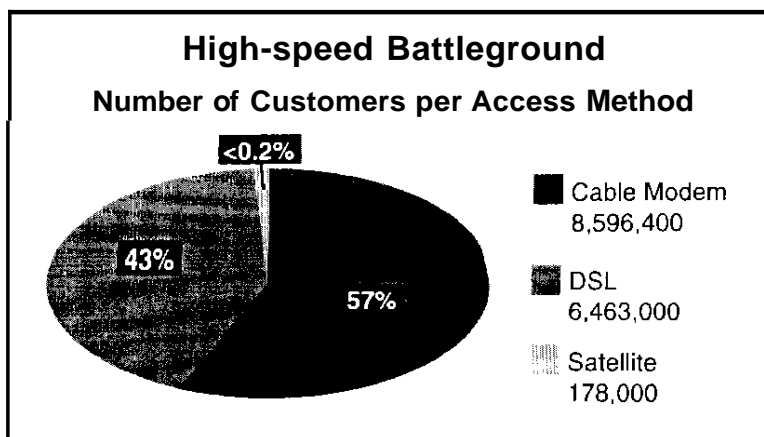
Meanwhile, the structure of the industry continues to change. On Nov. 5, United Online, Inc., bought the Internet access and e-mail service assets of *BlueLight.com*, a wholly owned subsidiary of Kmart Corp. United Online will pay about \$8.4 million in cash for *BlueLight.com*'s ISP operation. Most of the 19 *BlueLight.com* employees who are involved with ISP operations will

become United Online employees.

United says that *BlueLight*'s subscribers will keep their current e-mail addresses.

United Online added 141,000 paying customers during the quarter, bringing its fee-based audience to 1.85 million, up 8 percent during the third quarter and 48 percent from September 2001. In addition, about three million "active users" (logging in within the past 31 days) are signed up for the company's free access service, NetZero. For the first time ever, more than half of the paying customers who signed up during the quarter were new to United Online, rather than those upgrading from its free services.

"In what we expected to be a seasonally challenging quarter, the company reported a sequential increase



**Satellite Service Provider Details**  
**As of September 30, 2002**

Service	Parent	Monthly Fee	Customers	Added in 3Q02
Starband	Starband	\$69.99/mo.	40,000	no change
DirecWay	Hughes Network Services	\$59.99/mo.	138,000	new tally method
TOTALS				178,000

in pay subscriber additions, sequential growth in advertising and commerce revenues, and a reduction in average subscriber acquisition cost," said United Online Chairman Mark R. Goldston. United Online predicts it will add 260,000 to 300,000 new pay subscribers, including acquired BlueLight subscribers, by year-end, giving it a total of 2.11 million to 2.15 million paid subscribers. Its average monthly revenue per billable user (ARPU) is expected to be in the range of \$9.55 to \$9.65, and billable services revenues are projected to comprise approximately 70 percent of total revenues, Goldston said.

High-speed data services continued to drive growth at bundled-services provider RCN Corp., although the net result of high-speed growth and dial-up decline was that RCN's total customer base dropped by about 0.24 percent during the past six months. As of Sept. 30, RCN had 163,393 high-speed data customers, representing 19.44 percent growth above the March 31 level and 9.21 percent above the June 30 figure. For its dial-up business, RCN lost almost 15,000 customers, ending the *third* quarter with 296,762 dial-up users, down 4.78 percent during the period and more than 10 percent below the March 31 level.

Covad Communications Group, Inc., increased its total line count to

359,000 nationwide. Its consumer service represented 51 percent of that tally, while business subscribers were 49 percent — a slight shift from the even mix of the previous quarter. Although Covad added about 2,000 customers during the third quarter, that number matched the 2,000 user loss during the previous period — bringing Covad's customer count back to its March 31 level. About 9 percent of Covad's total lines are served through resellers, down from 11 percent at the end of the second quarter.

Covad signed a five-year agreement with AOL to provide DSL service to AOL customers, with availability beginning by year-end. Covad also expanded its relationship with EarthLink and established an alliance with Sprint. Covad's new "Power to the People" TV marketing campaigns in San Francisco and Washington are intended to increase consumer awareness of Covad's direct broadband Internet access services.

The continuous tweaking of the distribution alliances and pricing models reflect the revamping that is necessary as this young sector moves through a period of economic uncertainty.

### Broadband Boomlet

Despite such vagaries and the less torrid late summer pace (typically a

slow-growth season), the broadband escalation continued. The growth was fueled in part by competitive pricing — down into the \$30 range, at least for introductory offers in many markets.

AOL now says that about 3.7 million of its members access the service via high-speed connections. That represents 10 percent of AOL's global audience or nearly 14 percent of its U.S. customer base. (The company declines to spell out the geographic focus of its broadband audience, although it can be assumed to be overwhelmingly domestic.) Some of AOL's high-speed users access the service through bundled offers via Time Warner Cable or through DSL partners, and many others use their AOL accounts through "BYOA" ("bring your own access") arrangements, i.e. independent broadband connections. AOL

acknowledges "analysts' guesstimates" that about 500,000 customers use AOL Broadband connections directly.

Nowhere is the DSL migration more clearly demonstrated than in the shifting mix of the EarthLink customer base. Overall, EarthLink's dial-up audience declined about 5.3 percent from March 31 to Sept. 30 of this year. At the same time, its DSL audience climbed by 28 percent. Seen another way, DSL customers represented about 15 percent of EarthLink's customer base at the end of the third quarter, compared to about 11 percent at the end of the first quarter of this year. By further comparison, just under 9 percent of EarthLink customers used its high-speed service in September 2001.

Telephone companies' DSL services showed similar growth during the middle of 2002. For example,

Cable Multiple System Operator Details				
As of September 30, 2002				
Service (Parent)	Monthly Fee	Customers	New users in 3Q	% Increase
ATT Broadband (AT&T Inc.)	\$42.95	1,934,000	172,000	9.76%
Comcast (Comcast Communications)	\$39.95	1,300,000	169,800	15.02%
Cox High Speed Internet (Cox Communications Inc.)		1,272,300	157,000	14.08%
Charter Pipeline (Charter Communications Corp.)		1,055,000	150,000	16.57%
Optimum Online (Cablevision Systems Inc.)	\$39.95	610,500	50,500	9.02%
PowerLink (Adelphia Communications Corp.)		400,000 e	na	
Road Runner (Time Warner Cable)	\$44.95	2,300,000	257,000	12.58%
Insight (Insight Communications Inc.)	\$34.95	124,600	39,700	46.76%
<b>TOTALS</b>		<b>8,596,400</b>	<b>996,000</b>	<b>13.10%</b>

## Internet Service Provider Details

ISP (Parent)	Price	High Speed	Dial Up Subscribers	Added in 3Q	Sept. 30, 2002	High Speed Subscribers	Added in 3Q	Total	Growth since 3/31/02
America Online (America Online Inc.)	\$23.90		31,669,100	206,000	3,700,000 includes 500,000 AOL subscribers with independent broadband connections	35,300,000 (includes broadband connections)	2,000,000	NA	2.02%
AT&T Worldnet (AT&T Corp.)	\$16.95/150 hours	\$39.95/month	2,000,000						NA
Beltsouth Internet Service (Beltsouth Corp.)	\$15.95/unlimited (Beltsouth customers); \$21.55/unlimited Choice* customers; \$20.95 Dial-Up	\$45 DSL for "Complan"	680,000		924,000	1,504,000	121,000		NA
CompuServe (America Online Inc.)	\$19.95, unlimited		3,000,000			3,000,000			0.00%
EuroLink (EuroLink Inc.)	\$21.85 unlimited		3,976,000	1,060,000	661,000	4,637,000	77,000		4.58%
MSN Internet Access (Microsoft Corp.)	\$21.95		9,000,000	300,000		9,000,000			16.88%
Proxad (Proxad Corp.)	\$12.95, unlimited		588,000			588,000			1.39%
SBC/Proxad Internet (SBC Communications)	\$29.95 DSL		1,800,000 (H)		1,950,000	226,000	2,750,000		new method*
Comcast (Comcast Communications Inc.)	\$21.95 (without ISP); \$39.95 with MSN	-NA			525,000	17,000			8.47%
RCN (RCN)	\$17.95	296,762	14,910	164,000		14,088	460,762		1.49%
Surge (Surge Industries LLC)			90,000			80,000			NA
United Online (United Online)	\$9.95 (Juno) and Free (NetZero)	4,800,000 includes 1,850,000 paying Juno users)	141,000			4,800,000			new method*
Verizon Online (Verizon Communications Inc.)	\$21.95 dial-up unlimited	768 kbps/128 kbps	350,500 (H)		1,054,000	155,000	1,614,000		new method*
Covad (Covad Communications Group Inc.)	\$39.95		359,000			359,000			0.00%
GlobalNet (GlobalNet Communications)			55,000 (H)			55,000			NA
GlobalNet (GlobalNet Communications)			55,000 (H)			55,000			NA
Verizon Online (Verizon Communications Inc.)	\$21.95 dial-up unlimited	768 kbps/128 kbps	350,500 (H)		1,054,000	155,000	1,614,000		new method*
TOTALS			58,456,262	326,000	6,463,000	628,398	64,919,262**		

\* e = Estimate  
 \*\* New Method = new methodology for subscriber analysis  
 \*\* Does not include AOL users who bring their own broadband connections  
 NA = not applicable or not available

of BellSouth.net, the Internet access unit of BellSouth Corp., added 121,000 DSL customers during the third quarter of the year, following its second quarter growth of 74,000 DSL users. SBC Communications, Inc., added 226,000 new DSL subscribers during the third quarter, bringing its total to more than 2 million. Verizon, which added 155,000 DSL customers during the three-month period, has introduced a slew of pricing plans — starting with a three month \$29.95 introductory offer that slides into a \$49.95 monthly fee for its basic DSL package (768 kilobits per second downstream and 128 kbps upstream). Verizon, like its Bell counterpart, offers a variety of special packages. For customers committing to

a one-year DSL contract, the monthly price drops to \$39.95. And in the 13 states where Verizon has been authorized to provide interLATA services, it offers its "Variations" bundled package of services (including long distance and custom calling features), in which the DSL component costs \$34.95 per month. In the past, cable companies have beaten telephone companies to broadband subscribers by a two-to-one margin. But the cable modem lead over DSL is declining for the first time, despite the continuing growth of high-speed cable services as part of the industry's digital rollout. Our canvass

## Cable Modem Bandwagon



of the largest cable multiple system operators (MSOs) tallied 8.6 million customers, but an independent study by the National Cable and Telecommunications Association claims that about 10 million households have the service. NCTA's higher figure aggregates the stand-alone and custom services offered on hundreds of small cable systems not operated by the industry's giant MSOs — and beyond the reach of our data collection.

Based on NCTA's tally, cable companies have about 61 percent of high-speed subscribers compared to the 57 percent in the *TR* analysis. In either case, the shift demonstrates a dramatic uptick for DSL service — reflecting the aggressive assault by Bell companies and some independent providers on the high-speed market.

NCTA says that cable modem service via upgraded broadband cable systems is now available to more than 75 million U.S. households. It says the 10 million cable modem customers represent more than 20 percent of households with computers that are passed by cable systems where high-speed data service is available.

Among the largest cable operators, Comcast Corp., added 169,800 high-speed Internet subscribers during the quarter, ending with 1.3 million cable modem subscribers. AT&T Broadband, the industry's largest firm, signed up 172,000 new cable modem users during the quarter. Both companies released their quarterly reports just before the FCC was expected to provide final approval of their merger.

Cox Communications, Inc., reported its highest-ever quarterly growth in cable modem customers during the third quarter — adding 157,300 broad-

band users, far more than its previous 40,000 quarterly jump. Cox plans to boost the price of its cable modem service by \$5 per month in selected (but as yet unidentified) markets during the fourth quarter.

Insight Communications, the nation's ninth largest MSO, added 21,000 customers during the three-month period, also its largest quarterly growth ever.

## What to Do with Dial-Up?

Despite the DSL and cable modem expansion, the traditional dial-up access industry continues to attract users — as underscored by the marketing war now being waged by AOL and MSN. MSN, with a \$300 million marketing campaign for its version 8 software is outspending AOL, which has launched a \$100 million advertising drive for its AOL 8.0 service. The duel is intended to lure customers away from other providers although it may bring some new customers into the online world.

EarthLink, United Online, and other veteran providers also continue to troll for new customers or users ready to churn away from their existing provider. But AT&T WorldNet acknowledges the difficulty of fighting that battle.

AT&T WorldNet — which will be reorganized after the looming spinoff of AT&T Broadband to Comcast — claims that it has made no significant growth attempts during the past year.

“We’re not seeing **any** significant [marketing] attraction,” an AT&T spokeswoman said about the modest WorldNet sales efforts. WorldNet has offered a prepaid access service, but she declined to provide details about

the usage rates or the conversion of this service's customers to full WorldNet users.

Other carriers continue to promote their dial-up offerings. For example, BellSouth offers several discounts for its basic ISP access services through its "Complete Choice" bundle of long distance and custom calling features. Until the end of 2002, BellSouth's dial-up service costs \$9.95 monthly for the first three months and then \$15.95 per month for customers who buy the entire package. For à la carte customers (i.e. those not buying the "Complete Choice" bundle), the monthly price, are \$14.95 for the first three months, then \$20.95 afterwards.

United Online continues to market its two services. Its fee-based Juno Online access services now has 1.7 million customers, while the ad-supported NetZero service (one of the last remaining "free" ISP connections) has 3.1 million subscribers — significantly below its peak of two years ago. Although United Online continues to extol the values and expected longevity of dial-up connections, a spokesman acknowledges that the company is exploring high-speed service.

United Online is "dipping our toe in the pool" of broadband, he says, through its alliance with Comcast, which is providing turnkey access to the Juno Broadband pilot project. United Online declines to identify how many customers *have* signed up for the broadband offering.

Other providers are experimenting in ad hoc alliances to find niches that can be used in the evolving ISP market. For example, PeoplePC is working with

## Tweaking Services and Upgrades

As the ISP shake-out continues, access providers are enhancing their service package to offer price or convenience features. For example, Hughes Network Systems has added a Web feature so that its DirecWay customers can boost Web-browsing speeds by 30–50 percent. The new "Web Accelerator" feature is part of a free, downloadable service pack available exclusively to existing DirecWay users.

Qwest Communications International, Inc., and Verizon are expanding their portal relationships with MSN, although details are still being hammered out.

AOL is accelerating its wireless initiative. Among its latest deals was a pact with Verizon Wireless that will make AOL Instant Messenger (**AIM**) service available to Verizon Wireless customers, allowing them to send short messages to their "buddy lists" without going online via a PC. Verizon Wireless customers using the AIM service can exchange instant messages with others, regardless of whether they are signed on via a computer, mobile phone or other wireless device.

Most significantly, ISPs — especially broadband operators — are exploring price and packaging alternatives that will cater to the different demands of residential and small office/home office customers. For example, AT&T Broadband and Comcast say that after their merger they will introduce a higher-speed cable-modem tier and also a lower-data-rate tier. The new "UltraLink" service will provide up to 3 megabits per second downstream and 384 kilobits per second upstream. It is now available on AT&T Broadband systems in Dallas, Denver, Salt Lake City, the San Francisco Bay Area, Seattle, St. Paul, and in selected Michigan and Rocky Mountain AT&T markets.

The service costs \$79.99 per month for customers who own their modems and \$82.99 for those who lease modems. The MSO's original 1.5 Mbps down, 256 kbps up offering is priced at \$42.95 monthly for customers owning a modem and \$45.95 for those leasing a modem.

At the same time, AT&T and Comcast are developing a trial for a lower data rate service aimed at cost-conscious dialup customers looking to upgrade to broadband. AT&T has not yet determined a price or target speed for that service.

AT&T Broadband Internet, allowing customers to access accounts from remote PCs.

## Preparing for the Winter Battle

The next challenge for ISPs is to go beyond just attracting more users to the online world and to convince current users to upgrade to high-speed services. So far, early adopters have flocked to the high-speed, always-on appeal of broadband connections — despite the well chronicled lack of compelling applications. **AOL**, Microsoft, and other content providers are hustling to develop appropriate and attractive content.

Meanwhile, the grueling winter months lie immediately ahead. The fourth quarter often sees lively attention to online services as customers expand their holiday shopping through e-tailing services (increasingly loaded with rich media demonstrations). The first quarter of the new year has traditionally been the biggest growth season for online services, as families try out new services on the computer equipment they received for Christmas gifts.

This year may be different. The flattening of computer sales and the troubled economy in general will undoubtedly affect online growth. But there is an abundance of conflicting data to raise questions about online behavior. For example, a recent Nielsen/NetRatings analysis of U.S. households showed that affluent homes are prime targets for increased online usage.

According to the study, U.S. households making annual salaries of between \$100,000 and \$150,000 represent the fastest growing income group online, rising by 20 percent between September 2001 and September 2002. Richer households with incomes up to a million dollars increased by 14 percent during the past year. Nonetheless, according to Nielsen/NetRatings, the biggest online audience today is the sector with household salaries between \$50,000 and \$74,999. About 37.3 million people in this cohort were online users as of September 2002, the study says — indicating that half of online users (in the *TR* canvass) fall into that income category.

The shift toward broadband service is not unique in the U.S. A new IDC Corp. forecast shows that the European dial-up market is ready to disintegrate too, although it will grow slightly during the next two years before declining to 39.9 million connections by the end of 2006. Like the U.S., the European market is increasingly dominated by a handful of ISPs. IDC found that six large ISPs serve 52 percent of dial-up customers in Europe.

Amidst these revised and competitive conditions, ISPs face fundamental business barriers of consumer price sensitivity and packaging. Speed will remain an ingredient in customers' ISP selection — but as broadband capability itself becomes a commodity, the next ISP battle will be fought over service features **and** reliability. ■